

TWIN CEDARS COMMUNITY SCHOOL DISTRICT  
BUSSEY, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

Year Ended June 30, 2014

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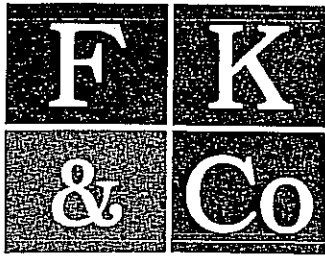
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Twin Cedars Community School District

Officials

| <u>NAME</u>                             | <u>TITLE</u>                                      | <u>TERM<br/>EXPIRES</u> |
|---|---|-------------------------|
| <b>Board of Education</b>               |   |                         |
| <b>(Before September 2013 Election)</b> |   |                         |
| Steve Gilkerson                         | President   | 2013                    |
| Steve Hoehns                            | Vice-President                                    | 2015                    |
| Brian Moore                             | Board Member                                      | 2013                    |
| Kelly Carlson                           | Board Member                                      | 2015                    |
| Tom Morgan                              | Board Member                                      | 2015                    |
| <b>Board of Education</b>               |   |                         |
| <b>(After September 2013 Election)</b>  |   |                         |
| Steve Hoehns                            | President   | 2015                    |
| Kelly Carlson                           | Vice-President                                    | 2015                    |
| Steve Gilkerson                         | Board Member                                      | 2017                    |
| Brian Moore                             | Board Member                                      | 2017                    |
| Tom Morgan                              | Board Member                                      | 2015                    |
| <b>School Officials</b>                 |   |                         |
| Brian Vandersluis                       | Superintendent                                    | 2014                    |
| Deb Haselhuhn                           | District Secretary/<br>Treasurer/Business Manager | Indefinite              |
| Ahlers Law Firm                         | Attorney  | Indefinite              |

Twin Cedars Community School District



# FALLER, KINCHELOE & CO, PLC

## Certified Public Accountants

### Independent Auditor's Report

To the Board of Education of  
Twin Cedars Community School District:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Twin Cedars Community School District (District), Bussey, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 17 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLLC  
Certified Public Accountants

March 6, 2015  
Des Moines, Iowa

Twin Cedars Community School District

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Twin Cedars Community School District (District) provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,368,348 in fiscal year 2013 to \$4,103,494 in fiscal year 2014, while General Fund expenditures increased from \$4,544,423 in fiscal year 2013 to \$4,671,596 in fiscal year 2014. The District's General Fund balance decreased from \$584,782 at the end of fiscal year 2013 to \$16,680 at the end of fiscal year 2014, a 97.15% decrease.
- The fiscal year 2014 General Fund revenue decrease was attributable to a decrease in state aid due to declining resident enrollment and loss of Open Enrollment in income. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits and general costs of supplies and goods. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- The District continues to make significant improvements to its facilities and equipment, including technology, from the use of Physical Plant and Equipment Levy funds and the Statewide Sales, Services and Use Tax funds.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how government services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.



Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

*Figure A-1*  
*Twin Cedars Community School District Annual Financial Report*

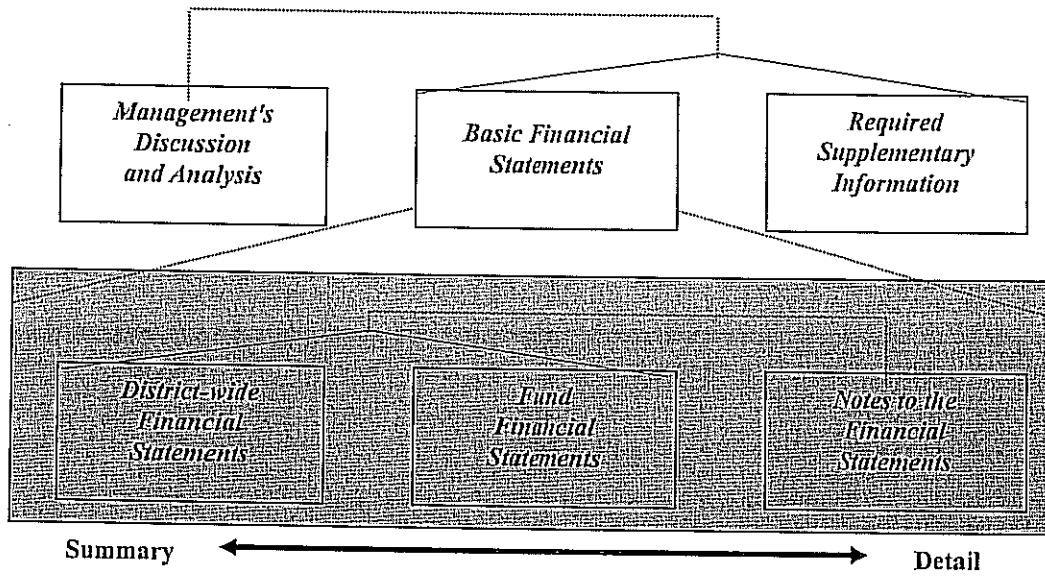


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| <b>Figure A-2</b><br><b>Major Features of the Government-wide and Fund Financial Statements</b> |  |  |  |  |
|---|--|--|--|--|
|   | Government-wide Statements   | Fund Statements  |  |  |
|   |  | Governmental Funds   | Proprietary Funds  |  |
| Scope   | Entire District (except fiduciary funds)   | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance   | Activities the District operates similar to private businesses: food services  |  |
| Required financial statements   | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>  | <ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul> |  |
| Accounting basis and measurement focus  | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  |  |
| Type of asset/liability information   | All assets and liabilities, both financial and capital, short-term and long-term                                 | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included   | All assets and liabilities, both financial and capital, short-term and long-term   |  |
| Type of inflow/outflow information  | All revenues and expenses during year, regardless of when cash is received or paid                               | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid   |  |

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

| <p style="text-align: center;"><b>Figure A-3</b><br/> <b>Condensed Statement of Net Position</b><br/> <b>(Expressed in Thousands)</b></p> |                            |       |                             |      |                   |       |                 |
|---|----------------------------|-------|-----------------------------|------|-------------------|-------|-----------------|
|   | Governmental<br>Activities |       | Business type<br>Activities |      | Total<br>District |       | Total<br>Change |
|   | June 30,                   |       | June 30,                    |      | June 30,          |       | June 30,        |
|   | 2014                       | 2013  | 2014                        | 2013 | 2014              | 2013  | 2013-2014       |
| Current and other assets  | \$ 2,645                   | 2,887 | 59                          | 76   | 2,704             | 2,963 | -8.7%           |
| Capital assets  | 2,508                      | 2,539 | 51                          | 60   | 2,559             | 2,599 | -1.5%           |
| Total assets  | 5,153                      | 5,426 | 110                         | 136  | 5,263             | 5,562 | -5.4%           |
| Long-term liabilities   | 417                        | 423   | -                           | -    | 417               | 423   | -1.4%           |
| Other liabilities   | 572                        | 493   | 2                           | 2    | 574               | 495   | 16.0%           |
| Total liabilities   | 989                        | 916   | 2                           | 2    | 991               | 918   | 8.0%            |
| Deferred inflows of resources   | 1,577                      | 1,402 | -                           | -    | 1,577             | 1,402 | 12.5%           |
| Net position:   |                            |       |                             |      |                   |       |                 |
| Net investment in   |                            |       |                             |      |                   |       |                 |
| capital assets  | 2,508                      | 2,539 | 51                          | 60   | 2,559             | 2,599 | -1.5%           |
| Restricted  | 492                        | 392   | -                           | -    | 492               | 392   | 25.5%           |
| Unrestricted  | (413)                      | 177   | 57                          | 74   | (356)             | 251   | -241.8%         |
| Total net position  | \$ 2,587                   | 3,108 | 108                         | 134  | 2,695             | 3,242 | -16.9%          |

The District's combined net position decreased by nearly 16.9%, or approximately \$547,000, from the prior year. A large portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$100,000, or 25.5% from the prior year. The increase was mainly due to the accumulation of the local option sales tax revenue.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$607,000, or 241.8%. The reduction in unrestricted net position was primarily due to an increase in the General Fund expenditures as a result of negotiated wage settlements and a general increase in the costs of materials and supplies combined with increased drop of State revenue due to decrease in resident enrollment and tuition revenue and continued short fall of increased per pupil funding from the State of Iowa.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

| Figure A-4<br>Changes in Net Position<br>(Expressed in Thousands) |                            |       |                             |      |                   |       |                 |  |
|---|----------------------------|-------|-----------------------------|------|-------------------|-------|-----------------|--|
|   | Governmental<br>Activities |       | Business type<br>Activities |      | Total<br>District |       | Total<br>Change |  |
|   | 2014                       | 2013  | 2014                        | 2013 | 2014              | 2013  | 2013-2014       |  |
| Revenues:   |                            |       |                             |      |                   |       |                 |  |
| Program revenues:   |                            |       |                             |      |                   |       |                 |  |
| Charges for service   | \$ 471                     | 561   | 95                          | 99   | 566               | 660   | -14.2%          |  |
| Operating grants, contributions<br>and restricted interest        | 616                        | 718   | 129                         | 125  | 745               | 843   | -11.6%          |  |
| General revenues:   |                            |       |                             |      |                   |       |                 |  |
| Property tax  | 1,401                      | 1,460 | -                           | -    | 1,401             | 1,460 | -4.0%           |  |
| Income surtax   | 61                         | 27    | -                           | -    | 61                | 27    | 125.9%          |  |
| Statewide sales, services and use tax                             | 349                        | 351   | -                           | -    | 349               | 351   | -0.6%           |  |
| Unrestricted state grants   | 1,736                      | 1,772 | -                           | -    | 1,736             | 1,772 | -2.0%           |  |
| Unrestricted investment earnings                                  | 1                          | 1     | -                           | -    | 1                 | 1     | 0.0%            |  |
| Other   | 71                         | 134   | -                           | -    | 71                | 134   | -47.0%          |  |
| Total revenues  | 4,706                      | 5,024 | 224                         | 224  | 4,930             | 5,248 | -6.1%           |  |
| Program expenses:   |                            |       |                             |      |                   |       |                 |  |
| Governmental activities:  |                            |       |                             |      |                   |       |                 |  |
| Instruction   | 3,505                      | 3,370 | -                           | -    | 3,505             | 3,370 | 4.0%            |  |
| Support services  | 1,415                      | 1,433 | -                           | -    | 1,415             | 1,433 | -1.3%           |  |
| Non-instructional programs  | 1                          | 1     | 250                         | 228  | 251               | 229   | 9.6%            |  |
| Other expenses  | 306                        | 254   | -                           | -    | 306               | 254   | 20.5%           |  |
| Total expenses  | 5,227                      | 5,058 | 250                         | 228  | 5,477             | 5,286 | 3.6%            |  |
| Change in net position  | (521)                      | (34)  | (26)                        | (4)  | (547)             | (38)  | 1339.5%         |  |
| Net position beginning of year                                    | 3,108                      | 3,142 | 134                         | 138  | 3,242             | 3,280 | -1.2%           |  |
| Net position end of year  | \$ 2,587                   | 3,108 | 108                         | 134  | 2,695             | 3,242 | -16.9%          |  |

In fiscal year 2014, property tax and unrestricted state grants accounted for 66.7% of the revenue from governmental activities while charges for service and operating grants and contributions account for 100.0% of the revenue from the business type activities.

The District's total revenues were approximately \$4.93 million of which approximately \$4.71 million was for governmental activities and approximately \$224,000 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 6.1% decrease in revenues and a 3.6% increase in expenses. The increase in expenses was primarily due increase in insurance costs, an increase in salaries for instructional staff and the addition of some instructional associates in both buildings.

#### Governmental Activities

Revenues for governmental activities were \$4,705,870 and expenses were \$5,227,468 for the year ended June 30, 2014. In a difficult budget year, the District was able to balance the budget by using funds in reserve to pay for District expenses in fiscal year 2014.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2014 compared to the year ended June 30, 2013.

| Figure A-5<br>Total and Net Cost of Governmental Activities<br>(Expressed in Thousands) |                        |              |                     |                      |              |                     |
|---|------------------------|--------------|---------------------|----------------------|--------------|---------------------|
|   | Total Cost of Services |              |                     | Net Cost of Services |              |                     |
|   | 2014                   | 2013         | Change<br>2013-2014 | 2014                 | 2013         | Change<br>2013-2014 |
| Instruction   | \$ 3,505               | 3,370        | 4.0%                | 2,575                | 2,240        | 15.0%               |
| Support services  | 1,415                  | 1,433        | -1.3%               | 1,407                | 1,429        | -1.5%               |
| Non-instructional programs  | 1                      | 1            | 0.0%                | 1                    | 1            | 0.0%                |
| Other expenses  | 306                    | 254          | 20.5%               | 157                  | 109          | 44.0%               |
| Totals  | <u>\$ 5,227</u>        | <u>5,058</u> | <u>3.3%</u>         | <u>4,140</u>         | <u>3,779</u> | <u>9.6%</u>         |

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$470,490.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$616,427.
- The net cost of governmental activities was financed with \$1,810,790 in property and other taxes and \$1,736,135 in unrestricted state grants.

#### Business Type Activities

Revenues for business type activities were \$223,780 representing a .45% decrease under the prior year while expenses totaled \$249,855, a 9.37% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income.

#### INDIVIDUAL FUND ANALYSIS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$441,020 well below last year's ending fund balances of \$914,776. The fund balance decrease is primarily due to costs associated with instructional personnel and expenses of providing services as well as a decrease in revenues in the General Fund due to inadequate state funding, declining resident enrollment and a steep decline in tuition in students.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. We have attempted to match revenues with expenditures in order to avoid deficit spending. The decrease in State funds resulted in a decrease in revenues. The decrease in State funds is the result of multiple years of declining enrollment and a sharp decrease in tuition in students. As a result, the District used carryover fund balance to meet its financial obligations during the year. The staff and administration have worked hard to keep costs to a minimum while still offering our students the best education possible.
- The General Fund balance decreased from \$584,782 to \$16,680 a 97.15% decrease. The impact of declining enrollment remains to have an adverse on the General Fund balance.
- The Capital Projects Fund balance increased from \$233,328 at the end of fiscal year 2013 to \$349,485 at the end of fiscal year 2014. The increase can be attributed to the accumulation of funds from the Statewide local option sales tax program for school infrastructure.

### **Proprietary Fund Highlights**

School Nutrition Fund net position decreased from \$134,221 at June 30, 2013 to \$108,146 at June 30, 2014, representing a decrease of approximately 19.43%. The District has worked hard to not stockpile supplies and to be efficient in the preparation and serving of the food. We hope through the continued use of sound purchasing practices we are able to keep the costs down. With the trend of declining enrollment, revenue is decreased because fewer meals are being served.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$59,293 less than budgeted revenues, a variance of -1.19%. The most significant variance resulted from the District receiving less money from local sources than originally anticipated, mainly due to not knowing until when school starts the total number of tuition in students.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the District had invested approximately \$2.559 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1.5% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$201,475 for both governmental and business type activities.

The original cost of the District's capital assets was approximately \$6.03 million. Governmental funds account for approximately \$5.89 million, with the remainder of approximately \$139,000 accounted for in the Proprietary, School Nutrition Fund.

During the year, the increases in assets were the costs incurred to perform building repairs, renovations and facility improvements, and new vehicles and equipment. The decrease in net assets during the year was due to depreciation expense in excess of new purchases for the year.

| Figure A-6<br>Capital Assets, net of Depreciation<br>(Expressed in Thousands) |                            |       |                             |      |                   |       |                 |
|---|----------------------------|-------|-----------------------------|------|-------------------|-------|-----------------|
|   | Governmental<br>Activities |       | Business type<br>Activities |      | Total<br>District |       | Total<br>Change |
|   | June 30,                   |       | June 30,                    |      | June 30,          |       | June 30,        |
|   | 2014                       | 2013  | 2014                        | 2013 | 2014              | 2013  | 2013-2014       |
| Land  | \$ 22                      | 22    | -                           | -    | 22                | 22    | 0.0%            |
| Buildings   | 1,269                      | 1,323 | -                           | -    | 1,269             | 1,323 | -4.1%           |
| Improvements other than buildings   | 723                        | 764   | -                           | -    | 723               | 764   | -5.4%           |
| Furniture and equipment   | 494                        | 430   | 51                          | 60   | 545               | 490   | 11.2%           |
| Totals  | \$ 2,508                   | 2,539 | 51                          | 60   | 2,559             | 2,599 | -1.5%           |

### Long-Term Debt

At June 30, 2014, the District had \$0 in long-term debt outstanding.



## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District experienced a decrease in enrollment by 15 students in the fall of 2014. The District has gone from serving 502 students in 2006 to 360 in 2014, a decrease of 142 students. This will negatively affect our General Fund balances in the future.
- The District has taken measures to maintain the current facilities. The District is currently free from any debt obligations.
- Fiscal 2014 negotiations with the Professional Educators of Twin Cedars for the 2014-15 school year took more money than the new monies received by the District. The District will negotiate a new agreement during fiscal 2015 for the 2015-2016 school year. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance. Because of the District's decline in enrollment, this will significantly impact General Fund balances.
- The District is going to continue to decrease staff and cut expenditures in an attempt to lower over all district costs. The districts budget authority is in serious decline. The district will have to ask patrons for a significant increase in cash reserve levy in FY16 to attempt to remedy the cash flow problem.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian VanderSluis, Superintendent, Twin Cedars Community School District, 2204 HWY G71, Bussey, Iowa, 50044.

## Basic Financial Statements

## Twin Cedars Community School District

Exhibit A

## Statement of Net Position

June 30, 2014

|  | Governmental<br>Activities | Business Type<br>Activities | Total            |
|--|----------------------------|-----------------------------|------------------|
| <b>Assets</b>                                      |                            |                             |                  |
| Cash and cash equivalents                          | \$ 798,580                 | 45,032                      | 843,612          |
| Receivables:                                       |                            |                             |                  |
| Property tax:                                      |                            |                             |                  |
| Delinquent   | 30,026                     | -                           | 30,026           |
| Succeeding year                                    | 1,576,929                  | -                           | 1,576,929        |
| Accounts   | 3,480                      | -                           | 3,480            |
| Due from other governments                         | 235,665                    | 170                         | 235,835          |
| Inventories  | -                          | 14,064                      | 14,064           |
| Capital assets, net of accumulated<br>depreciation | 2,507,540                  | 50,802                      | 2,558,342        |
| <b>Total assets</b>                                | <b>5,152,220</b>           | <b>110,068</b>              | <b>5,262,288</b> |
| <b>Liabilities</b>                                 |                            |                             |                  |
| Accounts payable                                   | 24,270                     | -                           | 24,270           |
| Salaries and benefits payable                      | 417,118                    | 1,680                       | 418,798          |
| Advances from grantors                             | 17,408                     | -                           | 17,408           |
| Due to other governments                           | 113,064                    | -                           | 113,064          |
| Unearned revenue                                   | -                          | 242                         | 242              |
| Long-term liabilities:                             |                            |                             |                  |
| Portion due within one year:                       |                            |                             |                  |
| Early retirement                                   | 20,009                     | -                           | 20,009           |
| Compensated absences                               | 7,613                      | -                           | 7,613            |
| Portion due after one year:                        |                            |                             |                  |
| Early retirement                                   | 36,972                     | -                           | 36,972           |
| Net OPEB liability                                 | 352,238                    | -                           | 352,238          |
| <b>Total liabilities</b>                           | <b>988,692</b>             | <b>1,922</b>                | <b>990,614</b>   |
| <b>Deferred Inflows of Resources</b>               |                            |                             |                  |
| Unavailable property tax revenue                   | 1,576,929                  | -                           | 1,576,929        |
| <b>Net position</b>                                |                            |                             |                  |
| Net investment in capital assets                   | 2,507,540                  | 50,802                      | 2,558,342        |
| Restricted for:                                    |                            |                             |                  |
| Categorical funding                                | 67,817                     | -                           | 67,817           |
| Management levy purposes                           | 5,320                      | -                           | 5,320            |
| Student activities                                 | 69,535                     | -                           | 69,535           |
| School infrastructure                              | 316,763                    | -                           | 316,763          |
| Physical plant and equipment                       | 32,722                     | -                           | 32,722           |
| Unrestricted                                       | (413,098)                  | 57,344                      | (355,754)        |
| <b>Total net position</b>                          | <b>\$ 2,586,599</b>        | <b>108,146</b>              | <b>2,694,745</b> |

See notes to financial statements.

## Twin Cedars Community School District

## Statement of Activities

Exhibit B

Year ended June 30, 2014

| Functions / Programs:                 | Program Revenues    |                     |   | Net (Expense) Revenue and Changes in Net Position     |                         |                          |
|---------------------------------------|---------------------|---------------------|---|---|-------------------------|--------------------------|
|                                       | Expenses            | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities |
| Governmental activities:              |                     |                     |   |   |                         |                          |
| Instruction:                          |                     |                     |   |   |                         |                          |
| Regular instruction                   | \$ 2,079,152        | 259,385             | 364,155   | -   | (1,455,612)             | -                        |
| Special instruction                   | 796,452             | 72,030              | 85,782  | -   | (638,640)               | -                        |
| Other instruction                     | 629,747             | 139,075             | 9,465   | -   | (481,207)               | -                        |
|                                       | <u>3,505,351</u>    | <u>470,490</u>      | <u>459,402</u>  | <u>-</u>  | <u>(2,575,459)</u>      | <u>-</u>                 |
| Support services:                     |                     |                     |   |   |                         |                          |
| Student                               | 86,662              | -                   | -   | -   | (86,662)                | -                        |
| Instructional staff                   | 135,739             | -                   | -   | -   | (135,739)               | -                        |
| Administration                        | 418,757             | -                   | -   | -   | (418,757)               | -                        |
| Operation and maintenance of plant    | 445,739             | -                   | -   | -   | (445,739)               | -                        |
| Transportation                        | 328,559             | -                   | 8,589   | -   | (319,970)               | -                        |
|                                       | <u>1,415,456</u>    | <u>-</u>            | <u>8,589</u>  | <u>-</u>  | <u>(1,406,867)</u>      | <u>-</u>                 |
| Non-instructional programs            | <u>1,032</u>        | <u>-</u>            | <u>-</u>  | <u>-</u>  | <u>(1,032)</u>          | <u>-</u>                 |
| Other expenditures:                   |                     |                     |   |   |                         |                          |
| Facilities acquisition                | 103,379             | -                   | -   | -   | (103,379)               | -                        |
| AEA flowthrough                       | 148,436             | -                   | 148,436   | -   | -                       | -                        |
| Depreciation (unallocated)*           | 53,814              | -                   | -   | -   | (53,814)                | -                        |
|                                       | <u>305,629</u>      | <u>-</u>            | <u>148,436</u>  | <u>-</u>  | <u>(157,193)</u>        | <u>-</u>                 |
| Total governmental activities         | <u>5,227,468</u>    | <u>470,490</u>      | <u>616,427</u>  | <u>-</u>  | <u>(4,140,551)</u>      | <u>-</u>                 |
| Business type activities:             |                     |                     |   |   |                         |                          |
| Non-instructional programs:           |                     |                     |   |   |                         |                          |
| Food service operations               | 249,855             | 94,978              | 128,744   | -   | -                       | (26,133)                 |
|                                       |                     |                     |   |   |                         | <u>(26,133)</u>          |
| Total                                 | <u>\$ 5,477,323</u> | <u>565,468</u>      | <u>745,171</u>  | <u>-</u>  | <u>(4,140,551)</u>      | <u>(26,133)</u>          |
|                                       |                     |                     |   |   |                         | <u>(4,166,684)</u>       |
| General Revenues:                     |                     |                     |   |   |                         |                          |
| Property tax levied for:              |                     |                     |   |   |                         |                          |
| General purposes                      |                     |                     |   |   | \$ 1,367,159            | -                        |
| Capital outlay                        |                     |                     |   |   | -                       | 1,367,159                |
| Statewide sales, services and use tax |                     |                     |   |   | 33,887                  | -                        |
| Income surtax                         |                     |                     |   |   | 348,428                 | -                        |
| Unrestricted state grants             |                     |                     |   |   | 61,316                  | -                        |
| Unrestricted investment earnings      |                     |                     |   |   | 1,736,135               | -                        |
| Gain on disposition of capital assets |                     |                     |   |   | 874                     | 58                       |
| Other                                 |                     |                     |   |   | 18,266                  | -                        |
|                                       |                     |                     |   |   | <u>52,888</u>           | <u>-</u>                 |
| Total general revenues                |                     |                     |   |   | <u>3,618,953</u>        | <u>58</u>                |
|                                       |                     |                     |   |   |                         | <u>3,619,011</u>         |
| Change in net position                |                     |                     |   |   | (521,598)               | (26,075)                 |
|                                       |                     |                     |   |   |                         | <u>(547,673)</u>         |
| Net position beginning of year        |                     |                     |   |   | 3,108,197               | 134,221                  |
|                                       |                     |                     |   |   |                         | <u>3,242,418</u>         |
| Net position end of year              |                     |                     |   |   | <u>\$ 2,586,599</u>     | <u>108,146</u>           |
|                                       |                     |                     |   |   |                         | <u>2,694,745</u>         |

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## Twin Cedars Community School District

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2014

|   | General             | Capital<br>Projects | Nonmajor       | Total            |
|---|---------------------|---------------------|----------------|------------------|
| <b>Assets</b>   |                     |                     |                |                  |
| Cash and cash equivalents   | \$ 469,176          | 253,147             | 76,257         | 798,580          |
| Receivables:  |                     |                     |                |                  |
| Property tax:   |                     |                     |                |                  |
| Delinquent  | 27,480              | 726                 | 1,820          | 30,026           |
| Succeeding year   | 1,426,929           | -                   | 150,000        | 1,576,929        |
| Accounts  | 3,480               | -                   | -              | 3,480            |
| Due from other governments  | 133,690             | 101,975             | -              | 235,665          |
| <b>Total assets</b>   | <b>\$ 2,060,755</b> | <b>355,848</b>      | <b>228,077</b> | <b>2,644,680</b> |
| <b>Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b>       |                     |                     |                |                  |
| <b>Liabilities:</b>   |                     |                     |                |                  |
| Accounts payable  | \$ 14,685           | 6,363               | 3,222          | 24,270           |
| Salaries and benefits payable   | 417,118             | -                   | -              | 417,118          |
| Advances from grantors  | 17,408              | -                   | -              | 17,408           |
| Due to other governments  | 113,064             | -                   | -              | 113,064          |
| <b>Total liabilities</b>  | <b>562,275</b>      | <b>6,363</b>        | <b>3,222</b>   | <b>571,860</b>   |
| <b>Deferred inflows of resources:</b>   |                     |                     |                |                  |
| Unavailable revenues:   |                     |                     |                |                  |
| Succeeding year property tax  | 1,426,929           | -                   | 150,000        | 1,576,929        |
| Other   | 54,871              | -                   | -              | 54,871           |
| <b>Total deferred inflows of resources</b>                                    | <b>1,481,800</b>    | <b>-</b>            | <b>150,000</b> | <b>1,631,800</b> |
| <b>Fund balances:</b>   |                     |                     |                |                  |
| Restricted for:   |                     |                     |                |                  |
| Categorical funding   | 67,817              | -                   | -              | 67,817           |
| Management levy purposes  | -                   | -                   | 5,320          | 5,320            |
| Student activities  | -                   | -                   | 69,535         | 69,535           |
| School infrastructure   | -                   | 316,763             | -              | 316,763          |
| Physical plant and equipment  | -                   | 32,722              | -              | 32,722           |
| Unassigned  | (51,137)            | -                   | -              | (51,137)         |
| <b>Total fund balances</b>  | <b>16,680</b>       | <b>349,485</b>      | <b>74,855</b>  | <b>441,020</b>   |
| <b>Total liabilities, deferred inflows of<br/>resources and fund balances</b> | <b>\$ 2,060,755</b> | <b>355,848</b>      | <b>228,077</b> | <b>2,644,680</b> |

See notes to financial statements.

Twin Cedars Community School District

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position

June 30, 2014

|   |            |
|---|------------|
| Total fund balances of governmental funds (page 21) | \$ 441,020 |
|---|------------|

*Amounts reported for governmental activities in the  
Statement of Net Position are different because:*

|  |           |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 2,507,540 |
|--|-----------|

|  |        |
|--|--------|
| Other long-term assets are not available to pay current period expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. | 54,871 |
|--|--------|

|  |                  |
|--|------------------|
| Long-term liabilities, including early retirement, compensated absences and other postemployment benefits payable, are not due and payable in the current year and, therefore, are not reported in the governmental funds. | <u>(416,832)</u> |
|--|------------------|

|   |                            |
|---|----------------------------|
| Net position of governmental activities (page 19) | <u><u>\$ 2,586,599</u></u> |
|---|----------------------------|

See notes to financial statements.

## Twin Cedars Community School District

Exhibit E

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2014

|                                    | General      | Capital<br>Projects | Nonmajor | Total     |
|------------------------------------|--------------|---------------------|----------|-----------|
| Revenues:                          |              |                     |          |           |
| Local sources:                     |              |                     |          |           |
| Local tax                          | \$ 1,342,117 | 31,776              | 84,921   | 1,458,814 |
| Tuition                            | 349,666      | -                   | -        | 349,666   |
| Other                              | 58,883       | 2,312               | 139,074  | 200,269   |
| State sources                      | 2,248,643    | 348,427             | -        | 2,597,070 |
| Federal sources                    | 104,185      | -                   | -        | 104,185   |
| Total revenues                     | 4,103,494    | 382,515             | 223,995  | 4,710,004 |
| Expenditures:                      |              |                     |          |           |
| Current:                           |              |                     |          |           |
| Instruction:                       |              |                     |          |           |
| Regular                            | 2,059,997    | -                   | 48,825   | 2,108,822 |
| Special                            | 745,067      | -                   | 4,572    | 749,639   |
| Other                              | 522,329      | -                   | 132,395  | 654,724   |
|                                    | 3,327,393    | -                   | 185,792  | 3,513,185 |
| Support services:                  |              |                     |          |           |
| Student                            | 85,999       | -                   | 663      | 86,662    |
| Instructional staff                | 134,766      | -                   | 973      | 135,739   |
| Administration                     | 385,209      | 2,525               | 14,208   | 401,942   |
| Operation and maintenance of plant | 332,926      | 17,416              | 30,555   | 380,897   |
| Transportation                     | 256,867      | 85,929              | 12,583   | 355,379   |
|                                    | 1,195,767    | 105,870             | 58,982   | 1,360,619 |
| Non-instructional programs         | -            | -                   | 1,032    | 1,032     |
| Other expenditures:                |              |                     |          |           |
| Facilities acquisition             | -            | 160,488             | -        | 160,488   |
| AEA flowthrough                    | 148,436      | -                   | -        | 148,436   |
|                                    | 148,436      | 160,488             | -        | 308,924   |
| Total expenditures                 | 4,671,596    | 266,358             | 245,806  | 5,183,760 |
| Change in fund balances            | (568,102)    | 116,157             | (21,811) | (473,756) |
| Fund balances beginning of year    | 584,782      | 233,328             | 96,666   | 914,776   |
| Fund balances end of year          | \$ 16,680    | 349,485             | 74,855   | 441,020   |

See notes to financial statements.

Twin Cedars Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2014

Net change in fund balances - total governmental funds (page 23) \$ (473,756)

*Amounts reported for governmental activities in the  
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures were less than depreciation expense in the current year, as follows:

|                                 |                  |          |
|---------------------------------|------------------|----------|
| Expenditures for capital assets | \$ 142,420       |          |
| Depreciation expense            | <u>(191,817)</u> | (49,397) |

|   |        |
|---|--------|
| In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. | 18,266 |
|---|--------|

|   |          |
|---|----------|
| Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. | (22,400) |
|---|----------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

|                               |            |              |
|-------------------------------|------------|--------------|
| Early retirement              | 5,514      |              |
| Compensated absences          | (803)      |              |
| Other postemployment benefits | <u>978</u> | <u>5,689</u> |

|   |                            |
|---|----------------------------|
| Change in net position of governmental activities (page 20) | <u><u>\$ (521,598)</u></u> |
|---|----------------------------|

See notes to financial statements.



## Twin Cedars Community School District

Exhibit G

Statement of Net Position  
Proprietary Fund

June 30, 2014

|   | <u>Nonmajor<br/>Enterprise,<br/>School<br/>Nutrition</u> |
|---|--|
| <b>Assets</b>                                   |  |
| Current assets:                                 |  |
| Cash and cash equivalents                       | \$ 45,032  |
| Due from other governments                      | 170  |
| Inventories                                     | 14,064   |
| Total current assets                            | <u>59,266</u>  |
| Noncurrent assets:                              |  |
| Capital assets, net of accumulated depreciation | 50,802   |
| Total noncurrent assets                         | <u>50,802</u>  |
| Total assets                                    | <u>110,068</u>   |
| <b>Liabilities</b>                              |  |
| Current liabilities:                            |  |
| Salaries and benefits payable                   | 1,680  |
| Unearned revenue                                | 242  |
| Total current liabilities                       | <u>1,922</u>   |
| Total liabilities                               | <u>1,922</u>   |
| <b>Net Position</b>                             |  |
| Net investment in capital assets                | 50,802   |
| Unrestricted                                    | <u>57,344</u>  |
| Total net position                              | <u>\$ 108,146</u>  |

See notes to financial statements.

## Twin Cedars Community School District

Exhibit H

Statement of Revenues, Expenses  
and Changes in Fund Net Position  
Proprietary Fund

Year ended June 30, 2014

|                                | <u>Nonmajor<br/>Enterprise,<br/>School<br/>Nutrition</u> |
|--------------------------------|--|
| Operating revenues:            |  |
| Local sources:                 |  |
| Charges for service            | <u>\$ 94,978</u>   |
| Operating expenses:            |  |
| Non-instructional programs:    |  |
| Food service operations:       |  |
| Salaries                       | 106,413  |
| Benefits                       | 15,476   |
| Purchased services             | 8,245  |
| Supplies                       | 110,063  |
| Depreciation                   | 9,658  |
| Total operating expenses       | <u>249,855</u>   |
| Operating loss                 | <u>(154,877)</u>   |
| Non-operating revenues:        |  |
| State sources                  | 1,935  |
| Federal sources                | 126,809  |
| Interest income                | 58   |
| Total non-operating revenues   | <u>128,802</u>   |
| (Decrease) in net position     | (26,075)   |
| Net position beginning of year | <u>134,221</u>   |
| Net position end of year       | <u><u>\$ 108,146</u></u>                                 |

See notes to financial statements.

## Twin Cedars Community School District

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2014

|   | <u>Nonmajor<br/>Enterprise,<br/>School<br/>Nutrition</u> |
|---|--|
| Cash flows from operating activities:   |  |
| Cash received from sale of lunches and breakfasts                                 | \$ 95,033  |
| Cash paid to employees for services   | (121,752)  |
| Cash paid to suppliers for goods and services                                     | (98,876)   |
| Net cash used by operating activities   | <u>(125,595)</u>   |
| Cash flows from non-capital financing activities:                                 |  |
| State grants received   | 1,935  |
| Federal grants received   | 112,191  |
| Net cash provided by non-capital financing activities                             | <u>114,126</u>   |
| Cash flows from investing activities:   |  |
| Interest on investments   | <u>58</u>  |
| Net (decrease) in cash and cash equivalents                                       | (11,411)   |
| Cash and cash equivalents beginning of year                                       | <u>56,443</u>  |
| Cash and cash equivalents end of year   | <u>\$ 45,032</u>   |
| Reconciliation of operating loss to net cash used by operating activities:        |  |
| Operating loss  | \$ (154,877)   |
| Adjustments to reconcile operating loss to net cash used by operating activities: |  |
| Commodities used  | 14,448   |
| Depreciation  | 9,658  |
| Decrease in inventories   | 4,984  |
| Increase in salaries and benefits payable   | 137  |
| Increase in unearned revenue  | <u>55</u>  |
| Net cash used by operating activities   | <u>\$ (125,595)</u>                                      |

## Non-cash investing, capital and financing activities:

During the year ended June 30, 2014, the District received \$14,448 of federal commodities.

See notes to financial statements.

Twin Cedars Community School District

Notes to Financial Statements

June 30, 2014

(I) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Twin Cedars Community School District (District) is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Bussey, Iowa, and the predominate agricultural territory in Marion and Mahaska Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment and intangibles are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class                       | Amount   |
|-----------------------------------|----------|
| Land                              | \$ 2,000 |
| Buildings                         | 10,000   |
| Improvements other than buildings | 10,000   |
| Intangibles                       | 25,000   |
| Furniture and equipment:          |          |
| School Nutrition Fund equipment   | 500      |
| Other furniture and equipment     | 5,000    |

Capital assets are depreciated/amortized using the straight line method over the following estimated useful lives:

| Asset Class                       | Estimated<br>Useful Lives<br>(In Years) |
|-----------------------------------|---|
| Buildings                         | 50                                      |
| Improvements other than buildings | 20-50                                   |
| Intangibles                       | 5-10                                    |
| Furniture and equipment           | 5-15                                    |

Salaries and Benefits Payable - Payroll and related expenditures for teachers and other school personnel with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Advances from Grantors – Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

Unearned Revenue – Unearned revenues are monies collected for meals that have not yet been served. The meal account balances will either be reimbursed, or will be used when meals are served. The meal account balances are reflected in the Statement of Net Position in the Proprietary, School Nutrition Fund.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Deferred Inflows of Resources – Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of income surtax, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **CASH AND CASH EQUIVALENTS**

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) **IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by an annual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the fiscal year. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The Series 2013-2014 ONE included taxable warrants only. The interest rates on the Series 2013-2014 ONE warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 105 basis points. The LIBOR rate at June 30, 2014 was 0.1524%. The District had no ISCAP activity during fiscal year 2014.



(4) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

|  | Balance<br>Beginning of<br>Year | Increases | Decreases | Balance End<br>of Year |
|--|---------------------------------|-----------|-----------|------------------------|
| <b>Governmental activities:</b>              |                                 |           |           |                        |
| Capital assets not being depreciated:        |                                 |           |           |                        |
| Land   | \$ 22,375                       | -         | -         | 22,375                 |
| Total capital assets not being depreciated   | 22,375                          | -         | -         | 22,375                 |
| Capital assets being depreciated:            |                                 |           |           |                        |
| Buildings                                    | 3,610,402                       | -         | -         | 3,610,402              |
| Improvements other than buildings            | 1,178,610                       | 12,530    | -         | 1,191,140              |
| Furniture and equipment                      | 1,081,182                       | 155,891   | 170,094   | 1,066,979              |
| Total capital assets being depreciated       | 5,870,194                       | 168,421   | 170,094   | 5,868,521              |
| Less accumulated depreciation for:           |                                 |           |           |                        |
| Buildings                                    | 2,287,975                       | 53,814    | -         | 2,341,789              |
| Improvements other than buildings            | 414,433                         | 54,160    | -         | 468,593                |
| Furniture and equipment                      | 651,490                         | 83,843    | 162,359   | 572,974                |
| Total accumulated depreciation               | 3,353,898                       | 191,817   | 162,359   | 3,383,356              |
| Total capital assets being depreciated, net  | 2,516,296                       | (23,396)  | 7,735     | 2,485,165              |
| Governmental activities capital assets, net  | \$ 2,538,671                    | (23,396)  | 7,735     | 2,507,540              |
| <b>Business type activities:</b>             |                                 |           |           |                        |
| Furniture and equipment                      | \$ 139,182                      | -         | -         | 139,182                |
| Less accumulated depreciation                | 78,722                          | 9,658     | -         | 88,380                 |
| Business type activities capital assets, net | \$ 60,460                       | (9,658)   | -         | 50,802                 |

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Other

\$ 6,420

Support services:

Administration

9,053

Operation and maintenance of plant

64,039

Transportation

58,491

138,003

Unallocated

53,814

Total depreciation expense - governmental activities

\$ 191,817

Business type activities:

Food service operations

\$ 9,658

(5) LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

|                          | Balance<br>Beginning<br>of Year | Additions | Reductions | Balance<br>End of<br>Year | Due<br>Within<br>One Year |
|--------------------------|---------------------------------|-----------|------------|---------------------------|---------------------------|
| Governmental activities: |                                 |           |            |                           |                           |
| Early retirement         | \$ 62,495                       | 11,657    | 17,171     | 56,981                    | 20,009                    |
| Compensated absences     | 6,810                           | 7,613     | 6,810      | 7,613                     | 7,613                     |
| Net OPEB liability       | 353,216                         | 16,193    | 17,171     | 352,238                   | -                         |
| Total                    | \$ 422,521                      | 35,463    | 41,152     | 416,832                   | 27,622                    |

Early Retirement

- A. In March 2011, the District approved a voluntary early retirement plan for employees. Eligible employees must have completed 30 consecutive years of full-time service to the District and must be at least age 55 on or before June 30 of the year in which the licensed employee wishes to retire. The application for early retirement was subject to approval by the Board of Education.

Upon retirement, the licensed employee is eligible to continue participation in the District's group insurance plan at the District's expense for 62 months or until the employee is eligible for Medicare, whichever comes first, by meeting the requirements of the insurer.

At June 30, 2014, the District has obligations to two participants with a total liability of \$24,358. Actual early retirement expenditures under this plan for the year ended June 30, 2014 totaled \$11,447. Only employees retiring at the end of the 2010-2011 school year were eligible for this plan.

- B. In February 2012, the District approved a voluntary early retirement plan for employees. Eligible employees must have completed 30 consecutive years of full-time service to the District and must be at least age 55 on or before June 30 of the year in which the licensed employee wishes to retire. The application for early retirement was subject to approval by the Board of Education.

Upon retirement, the licensed employee is eligible to continue participation in the District's group insurance plan at the District's expense for 60 months or until the employee is eligible for Medicare, whichever comes first, by meeting the requirements of the insurer.

At June 30, 2014, the District has obligations to one participant with a total liability of \$16,529. Actual early retirement expenditures under this plan for the year ended June 30, 2014 totaled \$5,724. Only employees retiring at the end of the 2011-2012 school year were eligible for this plan.

- C. In February 2014, the District approved a voluntary early retirement plan for employees. Eligible employees must have completed 25 consecutive years of full-time service to the District and must be at least age 55 on or before June 30 of the year in which the licensed employee wishes to retire. The application for early retirement was subject to approval by the Board of Education.

Upon retirement, the licensed employee is eligible to continue participation in the District's group insurance plan at the District's expense, up to a maximum of \$600 per month for 37 months or until the employee is eligible for Medicare, whichever comes first, by meeting the requirements of the insurer.

At June 30, 2014, the District has obligations to one participant with a total liability of \$16,094. Actual early retirement expenditures under this plan for the year ended June 30, 2014 totaled \$0. Only employees retiring at the end of the 2013-2014 school year were eligible for this plan.

There was one new participant in the early retirement program in fiscal year 2014. The total liability was adjusted in fiscal year 2014 to account for the increase in premiums in the year.

(6) **OPERATING LEASE**

The District entered into a lease on January 23, 2012 to lease copier equipment, which includes maintenance service, at \$2,623 per month. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires on January 23, 2017.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2014:

| <u>Year Ended</u><br><u>June 30,</u> | <u>Amount</u>    |
|--------------------------------------|------------------|
| 2015                                 | \$ 31,476        |
| 2016                                 | 31,476           |
| 2017                                 | <u>18,361</u>    |
|                                      | <u>\$ 81,313</u> |

During the fiscal year, total expenditures incurred in relation to this lease agreement were \$31,476.

(7) **PENSION AND RETIREMENT BENEFITS**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$248,161, \$228,123 and \$210,050, respectively, equal to the required contributions for each year.

(8) **OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 42 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially-insured plan with Wellmark, with the District covering the difference in deductible amounts for purchased plans with those paid by employees. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

|  |                   |
|--|-------------------|
| Annual required contribution               | \$ 14,212         |
| Interest on net OPEB obligation            | 15,895            |
| Adjustment to annual required contribution | <u>(13,914)</u>   |
| Annual OPEB cost                           | 16,193            |
| Contributions made                         | <u>(17,171)</u>   |
| Decrease in net OPEB obligation            | (978)             |
| Net OPEB obligation beginning of year      | <u>353,216</u>    |
| Net OPEB obligation end of year            | <u>\$ 352,238</u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed \$17,171 to the medical plan. Plan members eligible for benefits contributed \$7,060, or 29% of the premium cost.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

| Year Ended<br>June 30, | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB<br>Cost Contributed | Net<br>OPEB<br>Obligation |
|------------------------|---------------------|--|---------------------------|
| 2012                   | \$ 133,122          | 12.8%  | \$ 351,690                |
| 2013                   | 16,916              | 91.0%  | 353,216                   |
| 2014                   | 16,193              | 106.0%   | 352,238                   |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$128,487, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$128,487. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,634,000 and the ratio of the UAAL to covered payroll was 7.86%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy.

Mortality rates are from the *Life Expectancy Table* from National Center for Health Statistics updated in 2008, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the table 1 in GASB Statement 45.

Projected claim costs of the medical plan are \$481 per month for retirees less than age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District has a partially self-funded health insurance program. The District funds the difference between the deductible and out-of-pocket maximum on the plan chosen by the employee and the plan actually purchased by the District, per plan. This difference consists of a maximum District cost of \$4,000 for a single plan and \$8,000 for a family plan. The District incurred \$11,135 in costs related to this program for the year ended June 30, 2014. The District funds these costs from the General Fund as claims are incurred.

(10) **AREA EDUCATION AGENCY**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$148,436 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) **CATEGORICAL FUNDING**

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following programs:

| Program   | Amount           |
|---|------------------|
| Beginning teacher mentoring and induction program | \$ 4,338 —       |
| Educator quality, market factor                   | 5,735            |
| Educator quality, professional development        | 23,004           |
| Teacher quality basic                             | 1,601            |
| Teacher quality, core curriculum                  | 3,493            |
| Teacher leadership grants                         | 6,394            |
| Four-year old preschool state aid                 | 23,252           |
| Total   | <u>\$ 67,817</u> |

(12) **DEFICIT FUND BALANCE**

The General Fund had a deficit unassigned fund balance of \$51,137 at June 30, 2014. The deficit balance was a result of the cumulative effect of reductions in state funding received and salary increases approved in the prior years. This deficit will be eliminated through reductions in future expenditures.

(13) **SUBSEQUENT EVENTS**

The District has evaluated subsequent events through March 6, 2015, which is the date the financial statements were available to be issued.

(14) PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position Is expected to include a significant liability for the government's proportionate share of the employee pension plan.

## Required Supplementary Information

Twin Cedars Community School District

Budgetary Comparison Schedule of  
Revenues, Expenditures/Expenses and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2014

|   | Governmental<br>Funds<br>Actual | Proprietary<br>Fund<br>Actual | Total<br>Actual | Budgeted Amounts |             | Final to<br>Actual<br>Variance |
|---|---------------------------------|-------------------------------|-----------------|------------------|-------------|--------------------------------|
|   |                                 |                               |                 | Original         | Final       |                                |
| Revenues:   |                                 |                               |                 |                  |             |                                |
| Local sources   | \$ 2,008,749                    | 95,036                        | 2,103,785       | 2,506,846        | 2,506,846   | (403,061)                      |
| State sources   | 2,597,070                       | 1,935                         | 2,599,005       | 2,208,231        | 2,208,231   | 390,774                        |
| Federal sources   | 104,185                         | 126,809                       | 230,994         | 278,000          | 278,000     | (47,006)                       |
| Total revenues  | 4,710,004                       | 223,780                       | 4,933,784       | 4,993,077        | 4,993,077   | (59,293)                       |
| Expenditures/Expenses:  |                                 |                               |                 |                  |             |                                |
| Instruction   | 3,513,185                       | -                             | 3,513,185       | 3,617,498        | 3,920,000   | 406,815                        |
| Support services  | 1,360,619                       | -                             | 1,360,619       | 1,480,711        | 1,480,711   | 120,092                        |
| Non-instructional programs  | 1,032                           | 249,855                       | 250,887         | 253,012          | 253,012     | 2,125                          |
| Other expenditures  | 308,924                         | -                             | 308,924         | 415,147          | 415,147     | 106,223                        |
| Total expenditures/expenses   | 5,183,760                       | 249,855                       | 5,433,615       | 5,766,368        | 6,068,870   | 635,255                        |
| Excess (deficiency) of revenues<br>over (under) expenditures/expenses   | (473,756)                       | (26,075)                      | (499,831)       | (773,291)        | (1,075,793) | 575,962                        |
| Other financing sources, net  | -                               | -                             | -               | -                | -           | -                              |
| Excess (deficiency) of revenues and other<br>financing sources over (under)<br>expenditures/expenses and other financing uses | (473,756)                       | (26,075)                      | (499,831)       | (773,291)        | (1,075,793) | 575,962                        |
| Balances beginning of year  | 914,776                         | 134,221                       | 1,048,997       | 851,582          | 851,582     | 197,415                        |
| Balances end of year  | \$ 441,020                      | 108,146                       | 549,166         | 78,291           | (224,211)   | 773,377                        |

See accompanying independent auditor's report.



Twin Cedars Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The Twin Cedars Community School District's (District) budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$302,502.

During the year ended June 30, 2014, disbursements did not exceed expenditures.

Twin Cedars Community School District

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

| Year<br>Ended<br>June 30, | Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010                      | July 1, 2009                   | -                                      | \$ 1,044  | 1,044                              | 0.0%                     | \$ 2,655                  | 39.3%   |
| 2011                      | July 1, 2009                   | -                                      | 1,044   | 1,044                              | 0.0%                     | 2,692                     | 38.8%   |
| 2012                      | July 1, 2009                   | -                                      | 1,044   | 1,044                              | 0.0%                     | 2,624                     | 39.8%   |
| 2013                      | July 1, 2012                   | -                                      | 128   | 128                                | 0.0%                     | 1,851                     | 6.9%  |
| 2014                      | July 1, 2012                   | -                                      | 128   | 128                                | 0.0%                     | 1,634                     | 7.9%  |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

## Supplementary Information

## Twin Cedars Community School District

Schedule 1

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2014

|   | Special Revenue    |                     | Total          |
|---|--------------------|---------------------|----------------|
|   | Management<br>Levy | Student<br>Activity |                |
| <b>Assets</b>   |                    |                     |                |
| Cash and cash equivalents   | \$ 6,722           | 69,535              | 76,257         |
| Receivables:  |                    |                     |                |
| Property tax:   |                    |                     |                |
| Delinquent  | 1,820              | -                   | 1,820          |
| Succeeding year   | 150,000            | -                   | 150,000        |
| <b>Total assets</b>   | <b>\$ 158,542</b>  | <b>69,535</b>       | <b>228,077</b> |
| <b>Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b>       |                    |                     |                |
| <b>Liabilities:</b>   |                    |                     |                |
| Accounts payable  | \$ 3,222           | -                   | 3,222          |
| <b>Total liabilities</b>  | <b>3,222</b>       | <b>-</b>            | <b>3,222</b>   |
| <b>Deferred inflows of resources:</b>   |                    |                     |                |
| Unavailable revenues:   |                    |                     |                |
| Succeeding year property tax  | 150,000            | -                   | 150,000        |
| <b>Total deferred inflows of resources</b>                                    | <b>150,000</b>     | <b>-</b>            | <b>150,000</b> |
| <b>Fund balances:</b>   |                    |                     |                |
| Restricted for:   |                    |                     |                |
| Management levy purposes  | 5,320              | -                   | 5,320          |
| Student activities  | -                  | 69,535              | 69,535         |
| <b>Total fund balances</b>  | <b>5,320</b>       | <b>69,535</b>       | <b>74,855</b>  |
| <b>Total liabilities, deferred inflows of<br/>resources and fund balances</b> | <b>\$ 158,542</b>  | <b>69,535</b>       | <b>228,077</b> |

See accompanying independent auditor's report.

## Twin Cedars Community School District

## Schedule 2

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2014

|                                    | Special Revenue    |                     | Total    |
|------------------------------------|--------------------|---------------------|----------|
|                                    | Management<br>Levy | Student<br>Activity |          |
| Revenues:                          |                    |                     |          |
| Local sources:                     |                    |                     |          |
| Local tax                          | \$ 84,921          | -                   | 84,921   |
| Other                              | -                  | 139,074             | 139,074  |
| Total revenues                     | 84,921             | 139,074             | 223,995  |
| Expenditures:                      |                    |                     |          |
| Current:                           |                    |                     |          |
| Instruction:                       |                    |                     |          |
| Regular                            | 48,825             | -                   | 48,825   |
| Special                            | 4,572              | -                   | 4,572    |
| Other                              | 3,704              | 128,691             | 132,395  |
| Support services:                  |                    |                     |          |
| Student                            | 663                | -                   | 663      |
| Instructional staff                | 973                | -                   | 973      |
| Administration                     | 14,208             | -                   | 14,208   |
| Operation and maintenance of plant | 30,555             | -                   | 30,555   |
| Transportation                     | 12,583             | -                   | 12,583   |
| Non-instructional programs         | 1,032              | -                   | 1,032    |
| Total expenditures                 | 117,115            | 128,691             | 245,806  |
| Change in fund balances            | (32,194)           | 10,383              | (21,811) |
| Fund balances beginning of year    | 37,514             | 59,152              | 96,666   |
| Fund balances end of year          | \$ 5,320           | 69,535              | 74,855   |

See accompanying independent auditor's report.

## Twin Cedars Community School District

Schedule 3

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2014

| Account                     | Balance<br>Beginning of<br>Year | Revenues | Expenditures | Intrafund<br>Transfers | Balance End<br>of Year |
|-----------------------------|---------------------------------|----------|--------------|------------------------|------------------------|
| High School Tag             | \$ 185                          | 590      | 285          | -                      | 490                    |
| Co-Ed Athletics             | 929                             | 14,750   | 15,706       | -                      | (27)                   |
| Boys Athletics              | 11,052                          | 26,028   | 21,672       | -                      | 15,408                 |
| Boys Basketball             | -                               | 1,010    | 1,215        | -                      | (205)                  |
| Football                    | 3,503                           | 4,008    | 2,022        | -                      | 5,489                  |
| Baseball                    | 1,319                           | 4,486    | 1,554        | -                      | 4,251                  |
| Girls Athletics             | 3,392                           | 14,770   | 15,233       | -                      | 2,929                  |
| Softball                    | 262                             | 2,079    | 590          | -                      | 1,751                  |
| Activity Tickets            | 450                             | -        | -            | -                      | 450                    |
| Boys Track                  | 338                             | -        | -            | -                      | 338                    |
| Girls Basketball            | 437                             | 455      | 479          | -                      | 413                    |
| Volleyball                  | 4,530                           | 5,555    | 2,561        | -                      | 7,524                  |
| Pep Club                    | 215                             | 354      | 360          | -                      | 209                    |
| Yearbook                    | 16,089                          | 3,600    | 9,172        | -                      | 10,517                 |
| FFA                         | 1                               | 29,343   | 27,521       | -                      | 1,823                  |
| High School Student Council | 691                             | 1,151    | 929          | -                      | 913                    |
| Elementary Student Council  | 4,751                           | 3,362    | 3,794        | -                      | 4,319                  |
| Elementary Fundraisers      | 1,174                           | 2,372    | 1,747        | -                      | 1,799                  |
| Technology Club             | 352                             | 1,187    | 1,438        | -                      | 101                    |
| Archery Club                | 36                              | -        | -            | -                      | 36                     |
| National Honor Society      | -                               | 808      | 499          | -                      | 309                    |
| High School Music           | 136                             | -        | -            | -                      | 136                    |
| High School Colorguard      | 8                               | -        | -            | -                      | 8                      |
| Class of 2012               | 2                               | -        | -            | (2)                    | -                      |
| Class of 2013               | 3,588                           | -        | -            | (3,588)                | -                      |
| Class of 2014               | 753                             | 16,727   | 15,806       | 3,590                  | 5,264                  |
| Class of 2015               | 118                             | 1,606    | 1,651        | -                      | 73                     |
| Class of 2016               | -                               | 18       | -            | -                      | 18                     |
| Art Club                    | 83                              | 109      | 245          | -                      | (53)                   |
| Cheerleaders                | 1,992                           | 2,071    | 2,320        | -                      | 1,743                  |
| Drill Team                  | 2,766                           | 2,635    | 1,892        | -                      | 3,509                  |
| Total                       | \$ 59,152                       | 139,074  | 128,691      | -                      | 69,535                 |

See accompanying independent auditor's report.

## Twin Cedars Community School District

Schedule 4

Combining Balance Sheet  
Capital Project Accounts

June 30, 2014

|   | Capital Projects                            |   |                |
|---|---|---|----------------|
|   | Statewide<br>Sales, Services<br>and Use Tax | Physical Plant<br>and Equipment<br>Levy | Total          |
| <b>Assets</b>   |   |   |                |
| Cash and cash equivalents   | \$ 221,151                                  | 31,996                                  | 253,147        |
| Receivables:  |   |   |                |
| Property tax:   |   |   |                |
| Delinquent  | -   | 726                                     | 726            |
| Due from other governments  | 101,975                                     | -                                       | 101,975        |
| <b>Total assets</b>   | <b>\$ 323,126</b>                           | <b>32,722</b>                           | <b>355,848</b> |
| <b>Liabilities, Deferred Inflows of Resources<br/>and Fund Balances</b>       |   |   |                |
| Liabilities:  |   |   |                |
| Accounts payable  | \$ 6,363                                    | -                                       | 6,363          |
| Total liabilities   | 6,363                                       | -                                       | 6,363          |
| Deferred inflows of resources:  |   |   |                |
| None  | -   | -                                       | -              |
| Fund balances:  |   |   |                |
| Restricted for:   |   |   |                |
| School infrastructure   | 316,763                                     | -                                       | 316,763        |
| Physical plant and equipment  | -   | 32,722                                  | 32,722         |
| Total fund balances   | 316,763                                     | 32,722                                  | 349,485        |
| <b>Total liabilities, deferred inflows of<br/>resources and fund balances</b> | <b>\$ 323,126</b>                           | <b>32,722</b>                           | <b>355,848</b> |

See accompanying independent auditor's report.

Twin Cedars Community School District  
Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances

Schedule 5

Capital Project Accounts

Year ended June 30, 2014

|                                    | Capital Projects                            |   |         |
|------------------------------------|---|---|---------|
|                                    | Statewide<br>Sales, Services<br>and Use Tax | Physical Plant<br>and Equipment<br>Levy | Total   |
| Revenues:                          |   |   |         |
| Local sources:                     |   |   |         |
| Local tax                          | \$ -  | 31,776                                  | 31,776  |
| Other                              | 201   | 2,111                                   | 2,312   |
| State sources                      | 348,427                                     | -                                       | 348,427 |
| Total revenues                     | 348,628                                     | 33,887                                  | 382,515 |
| Expenditures:                      |   |   |         |
| Current:                           |   |   |         |
| Support services:                  |   |   |         |
| Administration                     | -   | 2,525                                   | 2,525   |
| Operation and maintenance of plant | -   | 17,416                                  | 17,416  |
| Transportation                     | 85,311                                      | 618                                     | 85,929  |
| Other expenditures:                |   |   |         |
| Facilities acquisition             | 156,796                                     | 3,692                                   | 160,488 |
| Total expenditures                 | 242,107                                     | 24,251                                  | 266,358 |
| Change in fund balances            | 106,521                                     | 9,636                                   | 116,157 |
| Fund balances beginning of year    | 210,242                                     | 23,086                                  | 233,328 |
| Fund balances end of year          | \$ 316,763                                  | 32,722                                  | 349,485 |

See accompanying independent auditor's report.



Twin Cedars Community School District

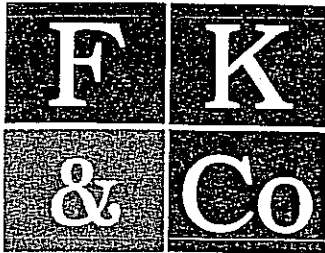
Schedule 6

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Ten Years

|                                    | 2014                   | 2013             | 2012             | 2011             | 2010             | 2009             | 2008             | 2007             | 2006             | 2005             |
|------------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                    | Modified Accrual Basis |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| <b>Revenues:</b>                   |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Local sources:                     |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Local tax                          | \$ 1,458,814           | 1,865,949        | 1,744,417        | 1,630,933        | 1,510,636        | 1,519,191        | 1,461,397        | 1,478,546        | 1,458,722        | 1,397,579        |
| Tuition                            | 349,666                | 384,554          | 305,616          | 332,529          | 405,005          | 353,033          | 403,511          | 424,002          | 408,503          | 419,604          |
| Other                              | 200,269                | 228,218          | 203,932          | 228,768          | 175,391          | 201,177          | 285,813          | 394,363          | 277,689          | 180,712          |
| Intermediate sources               | -                      | -                | -                | 3,000            | 6,000            | 1,000            | 1,000            | 4,000            | -                | 259              |
| State sources                      | 2,597,070              | 2,294,597        | 2,449,370        | 2,315,954        | 2,010,470        | 2,449,019        | 2,363,267        | 2,182,695        | 2,241,092        | 2,033,027        |
| Federal sources                    | 104,185                | 195,629          | 164,749          | 255,540          | 444,351          | 225,015          | 177,260          | 114,229          | 168,480          | 187,471          |
| <b>Total</b>                       | <b>\$ 4,710,004</b>    | <b>4,968,947</b> | <b>4,868,084</b> | <b>4,766,724</b> | <b>4,551,853</b> | <b>4,748,435</b> | <b>4,692,248</b> | <b>4,597,835</b> | <b>4,554,486</b> | <b>4,218,652</b> |
| <b>Expenditures:</b>               |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Instruction:                       |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Regular                            | \$ 2,108,822           | 1,962,474        | 1,737,203        | 1,853,755        | 1,604,908        | 1,720,238        | 1,617,640        | 1,559,467        | 1,461,801        | 1,666,724        |
| Special                            | 749,639                | 666,006          | 602,569          | 551,781          | 636,689          | 611,392          | 570,309          | 452,342          | 497,621          | 438,539          |
| Other                              | 654,724                | 712,322          | 670,341          | 745,819          | 875,115          | 719,297          | 655,178          | 574,753          | 620,710          | 540,050          |
| Support services:                  |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Student                            | 86,662                 | 75,514           | 122,760          | 125,817          | 108,059          | 150,045          | 133,446          | 110,566          | 47,096           | 75,559           |
| Instructional staff                | 135,739                | 140,490          | 67,736           | 134,078          | 68,184           | 71,986           | 52,360           | 74,889           | 144,663          | 56,041           |
| Administration                     | 401,942                | 440,285          | 441,022          | 443,823          | 411,122          | 420,349          | 419,711          | 416,607          | 372,084          | 310,662          |
| Operation and maintenance of plant | 380,897                | 378,621          | 351,596          | 375,574          | 343,185          | 406,645          | 426,512          | 389,404          | 276,500          | 231,380          |
| Transportation                     | 355,379                | 267,575          | 343,492          | 284,505          | 284,383          | 393,309          | 313,953          | 346,069          | 228,280          | 292,898          |
| Non-instructional programs         | 1,032                  | 891              | 873              | 752              | 1,019            | 875              | 890              | 892              | 25,383           | 19,896           |
| Other expenditures:                |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Facilities acquisition             | 160,488                | 350,098          | 90,050           | 105,190          | 333,367          | 148,254          | 204,637          | 324,412          | 389,650          | 160,561          |
| Long-term debt:                    |                        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Principal                          | -                      | 310,000          | 120,000          | 115,000          | 110,000          | 105,000          | 151,355          | 97,253           | 57,145           | 52,043           |
| Interest and other charges         | -                      | 14,653           | 17,247           | 21,592           | 25,919           | 29,932           | 36,232           | 40,008           | 39,148           | 30,080           |
| AEA flowthrough                    | 148,436                | 144,701          | 145,498          | 161,734          | 161,191          | 151,211          | 147,150          | 137,266          | 134,159          | 130,759          |
| <b>Total</b>                       | <b>\$ 5,183,760</b>    | <b>5,463,630</b> | <b>4,710,387</b> | <b>4,919,420</b> | <b>4,963,141</b> | <b>4,928,533</b> | <b>4,729,373</b> | <b>4,523,928</b> | <b>4,294,240</b> | <b>4,005,192</b> |

See accompanying independent auditor's report.



# FALLER, KINCHELOE & CO, PLC

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## Certified Public Accountants

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
Twin Cedars Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Twin Cedars Community School District (District) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A), (C) and (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
Faller, Kincheloe & Co., PLC  
Certified Public Accountants

March 6, 2015  
Des Moines, Iowa

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are sometimes all done by the same person. Also, vouchers are processed and checks are prepared by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Twin Cedars Community School District (District) should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Fixed Assets – Fixed assets were not periodically counted and reconciled to the fixed asset listing by an independent person. Also, a perpetual record of fixed assets is not kept. Generally accepted accounting principles require an accurate fixed asset listing be maintained.

Recommendation – To provide additional control over the proper recording of fixed assets, fixed assets should be periodically counted and reconciled to the fixed asset listing by a person who does not have custody of the fixed assets. Also, a perpetual fixed asset listing should be kept.

Response – We will review this situation.

Conclusion – Response acknowledged.

- (C) Financial Reporting – During the audit, we identified material amounts of receivables, inventories, payables, fixed assets and debt amounts not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all balances and transactions are identified and included in the District's financial statements.

Response – We will double check these in the future to avoid missing any of these types of transactions.

Conclusion – Response acknowledged.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2014

- (D) Preparation of Full Disclosure Financial Statements – Internal controls over financial reporting include the actual preparation and review of financial statements, including footnote disclosure, for external reporting, as required by generally accepted accounting principles. The District does not have the internal resources to prepare the full-disclosure financial statements required by generally accepted accounting principles for external reporting. While this circumstance is not uncommon for most governmental entities, it is the responsibility of management and those charged with governance to prepare reliable financial data, or accept the risk associated with this condition because of cost or other considerations.

Recommendation – We recognize that with a limited number of office employees, gaining sufficient knowledge and expertise to properly select and apply accounting principles in preparing full-disclosure financial statements for external reporting purposes is difficult. However, we recommend that District officials continue to review operating procedures and obtain the internal expertise needed to handle all the aspects of external financial reporting, rather than to rely on external assistance.

Response – We recognize our limitations; however, it is not fiscally responsible to add additional staff for this purpose.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2014

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Expenditures for the year ended June 30, 2014 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No expenditures of Twin Cedars Community School District (District) money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- (4) Business Transactions – No business transactions between the District and District officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board Minutes – We noted no transactions requiring Board approval which have not been approved by the Board.
- (7) Certified Enrollment – The total students reported to the Iowa Department of Education on the Certified Enrollment Certification Form for October 2013, was overstated by one student.

Recommendation – The District should contact the Iowa Department of Education and Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Iowa Department of Management.

Conclusion – Response acknowledged.

- (8) Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- (9) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and District's investment policy were noted.
- (10) Certified Annual Report – The Certified Annual Report was not timely certified to the Iowa Department of Education. In addition, we also noted material variances between the amounts reported on the Certified Annual Report and the financial statements.

Recommendation – The District should implement procedures to ensure the Certified Annual Reports are timely filed with the Iowa Department of Education in the future. The District should also contact the Iowa Department of Education to resolve this situation.

Response – We have contacted the Department of Education and will make adjustments through the certified annual report for the next fiscal year.

Conclusion – Response acknowledged.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2014

- (11) Categorical Funding – No instances of categorical funding being used to supplant rather than supplement other funds were noted.
- (12) Statewide Sales, Services and Use Tax – Except as noted below, no instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

The District expended \$1,863 for repairs to a vehicle and equipment which do not appear to be an allowable use in accordance with Chapter 423F.3 of the Code of Iowa.

Recommendation – The District should ensure expenditures of statewide sales, services and use tax revenue are limited to allowable uses.

Response – The District will review expenditures to ensure compliance in the future.

Conclusion – Response acknowledged.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenues. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit:

|                                       |            |                   |
|---------------------------------------|------------|-------------------|
| Beginning balance                     |            | \$ 210,242        |
| Revenues:                             |            |                   |
| Statewide sales, services and use tax | \$ 348,427 |                   |
| Other local revenues                  | 201        | 348,628           |
|                                       |            | <u>558,870</u>    |
| Expenditures/transfers out:           |            |                   |
| School infrastructure construction    | 156,796    |                   |
| Equipment                             | 85,311     | 242,107           |
|                                       |            | <u>242,107</u>    |
| Ending balance                        |            | <u>\$ 316,763</u> |

For the year ended June 30, 2014, the District did not reduce any levies as a result of moneys received under Chapter 423E and 423F of the Code of Iowa

- (13) Activity Fund Fundraisers – For Activity Fund fundraisers, there are no documented procedures in place to reconcile the cash receipts to the amount of money that should have been collected based on the quantity of merchandise purchased for resale or gross profit percentages.

Recommendation – The District should implement procedures for Activity Fund fundraisers which documents the reconciliation of actual monies collected to the amount of money which should have been collected based on the quantity of merchandise purchased for resale or gross profit percentages.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2014

- (14) Fuel – The District has an unleaded gas barrel and two diesel fuel barrels to be used for its vehicle and equipment fleet. The District attempts to maintain a perpetual record of unleaded gas and diesel fuel. However, no comparison is made between the fuel balances as recorded on the perpetual records with the actual number of gallons in the fuel tanks at any one time.

Recommendation – The District should periodically compare the balances as recorded on the perpetual fuel records with the actual gallons of fuel on hand, and any significant differences should be investigated.

Response – We will take the above under advisement.

Conclusion – Response acknowledged.

- (15) IRS Forms – Instances were noted where the District did not file an Internal Revenue Service (IRS) Form 1099-Misc. as required.

Recommendation - The District should implement procedures to ensure that IRS Form 1099-Misc. are filed as required.

Response – We will implement the recommendations as noted above.

Conclusion – Response acknowledged.

- (16) Financial Condition – The General Fund had a deficit unassigned fund balance of \$51,137 at June 30, 2014. In addition, the Special Revenue, Student Activity Fund had three accounts with deficit balances at June 30, 2014.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return the fund and accounts to a sound financial condition.

Response – The District will try to decrease expenditures and increase revenues so the General Fund and the Special Revenue, Student Activity Fund accounts do not show a deficit balance at year-end.

Conclusion – Response acknowledged.

- (17) Physical Plant and Equipment Levy Funds – The District paid for some equipment repair costs from the Special Revenue, Physical Plant and Equipment Levy Fund. Based on guidance as documented in the Department of Education's Uniform Administrative Procedures manual, it would not appear that equipment repair costs are not an allowable use of these funds.

Recommendation – The District should ensure expenditures of physical plant and equipment levy revenue are limited to allowable uses.

Response – The District will review expenditures to ensure compliance in the future.

Conclusion – Response acknowledged.



Twin Cedars Community School District

Schedule of Findings

Year ended June 30, 2014

- (18) Expenditures – The District paid for some purchases in which State of Iowa sales tax was paid. As a governmental entity, the District is exempt from paying State of Iowa sales tax.

Recommendation – The District should ensure State of Iowa sales tax is not paid on purchases.

Response – We will implement this recommendation.

Conclusion – Response accepted.